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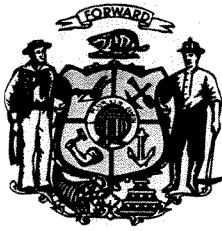
III. Department of Revenue – Cate Zeuske, Secretary
Department of Transportation – Charles Thompson, Secretary

The departments request a supplement of \$100,000 SEG in 1997-98 from the Committee's appropriation under s. 20.865(4)(u) to the Department of Revenue's appropriation under s. 20.566(1)(qm) for start-up costs for the administration of the rental vehicle fee. The source of the requested funding is the transportation fund.

Governor's Recommendation

Approve the request.

TOMMY G. THOMPSON
GOVERNOR
MARK D. BUGHER
SECRETARY



Mailing Address:
Post Office Box 7864
Madison, WI 53707-7864

Date: December 18, 1997

To: Members, Joint Committee on Finance

From: Mark D. Bugher, Secretary
Department of Administration

Subject: Section 13.10 Request from the Departments of Revenue and Transportation for Administration of the Rental Vehicle Fee.

Request

The departments request a supplement of \$100,000 SEG in 1997-98 from the Committee's appropriation under s. 20.865(4)(u) to the Department of Revenue's appropriation under s. 20.566(1)(qm) for start-up costs for the administration of the rental vehicle fee. The source of the requested funding is the transportation fund.

Background

1997 Wisconsin Act 27, the 1997-99 budget bill, created a rental vehicle fee of 5% on limousine rentals and 3% on other vehicle rentals. The fee is effective April 1, 1998 and is expected to raise about \$11.2 million for the transportation fund this biennium.

The technical follow-up bill to the budget (enrolled SB362) created the s.20.566(1)(qm) appropriation for DOR's costs in collecting the fee. It also provided DOR with 4.5 FTE positions, but no funding, for this purpose. This request fulfills the follow-up bill's provision that DOR and DOT jointly submit a request to supplement the appropriation for DOR's costs.

Analysis

To collect this new fee, DOR must establish a full range of registration, compliance, audit, accounting, and processing systems. While DOR has indicated that it will require a total of \$229,600 SEG in FY98 and \$387,000 SEG in FY99 toward this end, the departments have limited this request to the immediate start-up costs that can be accommodated within the projected balance of the transportation fund.

This request will reduce the transportation fund's estimated ending balance for the biennium from \$109,200 to \$9,200. While it may seem imprudent to reduce the expected balance so low, failure to provide for DOR's needs may endanger the much greater amount of revenue expected from the fee. Furthermore, given that the balance is already so low (equaling only 1/100th of 1% of the transportation fund expenditures in FY99), the change in the expected balance caused by this request has no practical implications. Choosing between the two possible ending balances of \$109,200 and \$9,200 is of no material significance given the magnitude of other figures in the fund's condition statement.

DOR would use the \$100,000 to hire a contract programmer and to conduct the necessary mailings to inform businesses of the new fee and its filing requirements. The contract programmer will begin to analyze, design, code and test the changes that will be necessary to the department's existing systems to handle a new and separate revenue stream. Of the total request, \$92,700 would be devoted to contract programming and related costs (including Info-tech, space, software, furniture, and PC costs). The remaining \$7,300 would be used for printing and postage for identifying and registering the estimated 5,800 businesses that will remit the fee.

Recommendation

Approve the request. It is a necessary first step in providing DOR with resources to collect the fee.

Prepared by: Paul Ziegler
266-5468



State of Wisconsin • DEPARTMENT OF REVENUE

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Tommy G. Thompson
Governor

Cate S. Zeuske
Secretary of Revenue

December 1, 1997

The Honorable Brian Burke, Co-Chair
The Honorable John Gard, Co-Chair
Members, Joint Committee on Finance
115 South Capitol
Madison, WI 53702

Dear Senator Burke and Representative Gard:

We are writing under the non-statutory provisions of SB 362 which require that the Department of Revenue (DOR) and the Department of Transportation (DOT) jointly request the Joint Committee on Finance to supplement the appropriation under section 20.566(1)(qm) of the statutes from the transportation fund. DOR has previously filed a request dated November 20, 1997 for \$100,000 in start-up funding to begin implementation of the 5% gross receipts fee on limousine rentals and 3% gross receipts fee on other vehicle rental types. DOT supports the initial request, and agrees that the transportation fund, based on the ending balance of approximately \$109,000 available under 1997 Wisconsin Act 27, has sufficient revenue to fund the request.

DOT wishes to express two concerns with the initial request:

- DOR should be provided resources to implement these new fees to the extent those resources are essential to ensure successful implementation,
- DOT has never advocated spending the transportation fund balance down to "zero".

As detailed in the request for funding of November 20th restated below, the \$100,000 will not be sufficient to meet the resource requirements for administering the rental vehicle fees. We are concerned that these resources will be made available only if there is a balance in the transportation fund to draw against, and there is no guarantee that revenues will exceed the original projections and produce a surplus balance. We are examining alternatives to meet these funding challenges and look forward to working with the legislature towards an appropriate solution.

Summary of Request (reprinted from November 20, 1997)

The Department of Revenue requests start-up funding of \$100,000 in FY98 under s. 20.566(1)(qm) for the administration of the rental vehicle fee under Subchapter XI of Chapter 77. The funding requested will be provided from the transportation fund. This initial request is to obtain start-up funding. A subsequent request will be made later in the fiscal year to obtain the balance of the funding identified in this request for the full operations of the rental vehicle fee program.

Background of Request

Beginning in April 1998, a 5% gross receipts fee will be imposed on limousine rentals, and a 3% gross receipts fee will be imposed on rentals of other types of vehicles. Payments of rental vehicle fees are expected to be made to DOR beginning in July 1998 for the quarter ending June 1998. DOR expects to utilize standard methods of collecting and ensuring compliance. This will require additional audit, compliance, processing, and applications development activity in the Income, Sales and Excise Taxes Division.

Ongoing activities required to administer the rental vehicle fees include the following:

1. Identification of persons subject to fees (customers) and provision of forms and instructions for registering customers and reporting fees.
2. Capture and computer storage of account and fee data reported by customers.
3. Collection and deposit of fees.
4. Determination of fee payment and reporting requirements as well as billing, refunding or corresponding with customers who are at variance with requirements.
5. Verification of correct fee liabilities through audit of taxpayer returns and records.

The Rental Vehicle Fee was authorized by 1997 Wisconsin Act 27 with the fee revenue going to the segregated Transportation Fund. However, no funding was provided to administer the collection of this fee.

General/Assumptions

A total of 5 FTE permanent positions will be required, and 1.5 contract programmer will be required for a period of 12 months. In the attached schedule, applications development staff position is assumed to begin on January 4, 1998. The actual cost of this position will be less depending on when we receive the spending authority. All other positions are assumed to begin as of June 21, 1998.

Permanent salary costs are based on minimums in the 1996-97 pay plan, with a 3% increase for 1997-98 and a 3.5% increase for 1998-99. One-time costs associated with each permanent position and contract programmer include \$4,700 for system furniture, \$200 for telephone, and \$4,200 for a network PC. Ongoing costs associated with each position include \$3,000 for space rent, \$300 for telephone service and \$100 for office supplies.

A summary of administrative costs associated with rental vehicle fees is attached.

FY98 Start-up Costs

This document presents the full administrative costs necessary to administer the rental vehicle fee program. Due to timing considerations and the need to analyze the fiscal condition of the Transportation Fund, the Department of Revenue is requesting minimal start-up funding at this time in order to implement the program in a timely manner. The Department of Transportation has indicated that the Transportation Fund balance at this time is sufficient to fund the \$100,000 requested for FY98. The start-up costs requested are identified below and are explained in the following sections of this document:

Contract Programming	68,000
Development InfoTech Costs	10,800
Space Rent	1,500
Network Infrastructure	700
Programming Software	2,600
Furniture (including telephone)	4,900
Personal Computer	4,200
Initial Contact Letter Printing	3,700
Follow-up Letter Printing	300
Acknowledgement Printing	300
Acknowledgement Postage	3,000
Total	\$100,000

Computer System

A new computer system for the rental vehicle fees will be developed to support on-line registration, forms printing, scanning returns, verification of return data and generation of adjustments and non-filer notices on a PC network platform with the upload and storage of return data on a mainframe platform. Changes will be made to the Revenue Accounting System to account for receipts of rental vehicle fees. Changes will also be made to the Delinquent Tax Control System so that it can accept delinquencies for rental vehicle fees.

Additional applications development staff will be required to analyze, design, code and test the changes needed to existing systems and the writing of a new system to process rental vehicle fees. An IS System Specialist position would act as a team leader, giving assignments to the contract programmers, and verifying that completed work meets the required specifications. The position would also act as the chief analyst and designer as the project is started and would be needed in an on-going capacity to continue the enhancements, interfaces with other tax systems, and handle changes needed on a long-term basis.

Annual costs for the IS Systems Specialist position would include \$2,800 for travel and training. A contract programmer will be required for 2,080 hours at \$55 per hour to complete the initial development.

Existing applications development and revenue tax specialist positions will absorb other ongoing production, monitoring, technical support, training, and consultation functions, required for both computer operations and end users staff.

Additional InfoTech computer usage charges will be associated with development and operation of the new system. Costs for development are estimated at \$1,200 per month per applications development FTE. Costs for production are estimated at \$10,000 annually beginning in 1998-99.

Provision of network infrastructure for personal computers to be acquired for new positions will require acquisition of additional communications access hubs, lobe attachment modules and routers at a cost of \$6,000. Additional programming software will also be acquired at a cost of \$7,800.

Customer Identification and Registration.

In January 1998, a letter describing the filing requirements for rental vehicle fees and a form for rental vehicle fees will be included with regular distributions of sales and use tax return forms sent to all 170,000 registered sellers. The printing cost is estimated at \$3,700.

A follow up mailing will be sent to an estimated 1,000 sellers who fit profiles that indicate a tax liability but who did not respond to the first mailing. The postage will cost \$300. An estimated total of 5,800 sellers are expected to register for rental vehicle fees.

A mailing to acknowledge registration and remind customers of the April 1, 1998 imposition date will occur during February 1998. Items to be mailed include an acknowledgement letter and a 16-page special publication explaining the new fees. The publication will cost \$300. Postage will cost \$3,016 based on a rate of \$0.520/piece.

The existing sales tax registration form will be modified for ongoing registrations. The cost of this change will be minimal and will be absorbed. Existing staff will perform initial and ongoing registrations, enter new accounts to the vehicle rental fees system, maintain taxpayer information, and inactivate taxpayers upon termination of liability.

Return Processing

Customers will compute their fee using return forms and accompanying instructions provided by DOR.

Sufficient return forms are needed to accommodate 5,800 customers filing on a quarterly basis. A year's supply of forms will be mailed to each customer on an annual basis. The mailings will be spread over three months to coincide with each customer's initial filing for the year. Normally four return forms covering an entire year ($5,800 \times 4 = 23,200$) will be mailed to each taxpayer in July, August or September to avoid heavy mailing workloads in December. However, 5,800 forms must be mailed out in April, May, and June 1998 for the first filing liability quarter before annual supplies of forms can be mailed out beginning in July 1998.

Each mailing envelope will include the proper number of return forms and return envelopes. Annual printing costs will be \$700 in 1997-98, and \$1,000 in subsequent years. Annual postage for the mailings will be \$1,514.

Returns filed by customers will be mailed to a separate post office box that will be rented at \$400 per year. The returns will be scanned and the data verified. Existing scanning hardware will be utilized, but software will have to be customized for the new fee at a cost of \$30,000.

A Clerical Assistant 2 position is required in the Tax Processing Scanning Unit to operate the scanning and verifying equipment for the additional returns. This position will verify that the check amount matches the reported amount due. Since a small percentage of the forms will contain errors, error correction and re-keying will need to be handled by these positions. Data verification software at a cost of \$2,500 will be required for the PC workstation. Because of the additional workstation, the PC network will require an additional lobe attachment module at a costing \$2,200 and a laser printer costing \$3,000.

Adjustments and Correspondence

The computer system will detect discrepancies in reporting fees by checking computations and comparing data from the rental vehicle fees return with account data, and generate non-filer, incomplete return, and adjustment notices.

A Program Assistant 2 is required to monitor computer adjustment notices, assist customers making inquiries about the notices, reviewing taxpayer responses, and updating system account information based on those responses. Workload for these activities can be estimated based on comparisons with similar activities for sales tax. The ratio of the estimated number of vehicle rental / limousine service fee tax accounts (5,800) to the number of sales and use tax accounts (170,000) is 0.034. Applying this ratio to an estimated 36,377 hours for sales tax adjustment activities in 1996-97 results in an estimated 1,236 hours for rental vehicle / limousine service fee adjustment activities, or 0.75 FTE. However, since rental vehicle and limousine service fees are complex new programs, proportionally more adjustments are expected, requiring a full 1.0 FTE. More complex activities such as adjustment of accounts related to previous department actions, and review of appeals of adjustments will be absorbed by existing staff.

A Revenue Agent 3 is required to provide technical assistance in rental vehicle fees and other topics to customers, their representatives, and department or other agency personnel. In addition to the standard support costs, this position will require training costs of \$200.

Audit

A Revenue Auditor 3 position is required to perform office audit determinations related to rental vehicle fees. Initially the auditors will be involved in research and planning for proper application of rules, and development of projects to identify business entities that have either failed to register or have failed to properly report taxable receipts for rental vehicle fees. Most of their subsequent time will be devoted to identifying and contacting unregistered entities with a tax liability. Another significant activity will be to analyze trends in reported rental vehicle gross receipts over time, compare reported rental vehicle gross receipts with reported general sales gross receipts, and investigate variations that may indicate underreporting. In addition to the standard support costs, this position will require training costs of \$200.

Additional time will be required to field audit sales and use tax accounts that also file rental vehicle fees returns, due to additional verifications and adjustment computations required. Also, more frequent audit of these accounts can be expected because of their additional tax liability. The additional workload will be absorbed by existing staff.

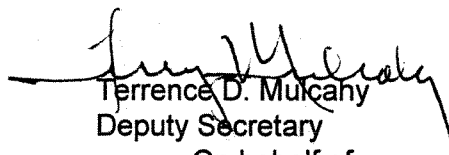
How Request Meets Statutory Criteria

This request is to supplement the appropriation under section 20.566(1)(qm) of the statutes from the transportation fund. Both the Department of Revenue and the Department of Transportation agree that the Transportation Fund has sufficient revenue to support the start-up funding requested for FY98. Approval of this request is critical to the effective operation of the rental vehicle fee program and necessary to fulfill the legislative intent for this program.

Sincerely,


Cate Zeuske
Secretary of Revenue

Sincerely,


Terrence D. Mulcahy
Deputy Secretary
On behalf of
Charles H. Thompson
Secretary of Transportation

KDH/meh



State of Wisconsin • DEPARTMENT OF REVENUE

125 SOUTH WEBSTER STREET • P.O. BOX 8933 • MADISON, WISCONSIN 53708-8933 • 608-266-6466 • FAX 608-266-5718

Tommy G. Thompson
Governor

Cate S. Zeuske
Secretary of Revenue

November 20, 1997

The Honorable Brian Burke, Co-Chair
The Honorable John Gard, Co-Chair
Members, Joint Committee on Finance
115 South Capitol
Madison, WI 53702

Dear Senator Burke and Representative Gard:

Summary of Request

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Audit

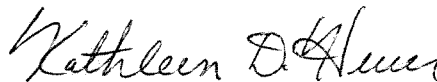
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Additional time will be required to field audit sales and use tax accounts that also file rental vehicle fees returns, due to additional verifications and adjustment computations required. Also, more frequent audit of these accounts can be expected because of their additional tax liability. The additional workload will be absorbed by existing staff.

How Request Meets Statutory Criteria

Section 13.101(4), Stats., provides that an agency may request a transfer from one agency's appropriation to another agency's appropriation within the same funding source. Both the Department of Revenue and the Department of Transportation agree that the Transportation Fund has sufficient revenue to support the start-up funding requested for FY98. Approval of this request is critical to the effective operation of the rental vehicle fee program and necessary to fulfill the legislative intent for this program.

Sincerely,



Kathleen D. Heuer
Deputy Secretary of Revenue

KDH/meh

Rental Vehicle Fees Administrative Costs

11/20/97

COST ITEM	NO. OF UNITS	UNIT COST	1997-98 COST	1998-99 COST
Permanent Salaries				
Maintain computer system				
IS System Specialist	1.00 FTE	22.031	\$22,912	
IS System Specialist	1.00 FTE	22.802		\$47,428
Adjustment Review				
Program Assistant 2	1.00 FTE	10.513		21,867
Technical Assistance				
Revenue Agent 3	1.00 FTE	14.553		30,270
Data Capture				
Clerical Assistant 2	1.00 FTE	9.007		18,735
Office Audit				
Revenue Auditor 3	1.00 FTE	14.553		30,270
Total Permanent Salaries			\$22,912	\$148,570
Fringe Benefits @36.93%			\$8,461	\$54,867
One-Time Supporting Expenses				
Contract programming	1560 hrs/yr	55	\$85,800	\$85,800
Development InfoTech	0.75 FTE/yr	14400	10,800	10,800
Rent	2 pos.	1500	3,000	3,000
Network infrastructure			8,200	
Programming software			7,800	
Furniture, telephone	3 pos.	4900	14,700	
Furniture, telephone	4 pos.	4900		19,600
Personal computer	3 pos.	4200	12,600	
Personal computer	4 pos.	4200		16,800
Initial contact letter printing			3,700	
Follow up letter postage			300	
Acknowledgement printing			300	
Acknowledgement postage			3,016	
Scanning system upgrade			30,000	
Data verification software	1 PC	2500	2,500	
Laser printer			3,000	
Total One-Time Supporting Expenses			\$185,716	\$136,000
Ongoing Supporting Expenses				
Development InfoTech	0.50 FTE	14400	\$7,200	
Development InfoTech	1.00 FTE	14400		\$14,400
Production Infotech				10,000
Return printing			700	1,000
Return postage	5800	0.261	1,514	1,514
Post office box				400
Telephone	0.50 FTE	300	150	
Telephone	5.00 FTE	300		1,500
Supplies	0.50 FTE	100	50	
Supplies	5.00 FTE	100		500
Travel & Training	0.50 FTE	2800	1,400	
Travel & Training	1.00 FTE	2800		2,800
Travel & Training	2.00 FTE	200		400
Rent	1 pos.	1500	1,500	
Rent	5 pos.	3000		15,000
Total Ongoing Supporting Expenses			\$12,514	\$47,514
Total Costs			\$229,603	\$386,951